

CableVision

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MEIDY CHANNEL'S
NY LAUNCH

SHOWTIME
NEXT SHOE?

PAGE ADS
POST SYSTEMS

WANCES IN
SECTION GEAR

going ahead of the market

By Robert Lewis

Capital's Michael Cummings
in Boston's Sanford Arnsley

A's Rick McIntyre



LOOKING HARDER FOR SMART PLAY IN CABLE

Financial wizards add
both caution

CableVision

INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT NOV 20, 1989

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Photo by Arnie Adler

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NEWS

Networks will pay \$8-\$9 million in interim ASCAP fees; judge may hold MSOs liable

By Larry Jaffee

A closer examination of the two court rulings in the controversy between ASCAP, the music licensing organization, and virtually all of the major cable networks reveals that the judge still has a lot to decide in the contentious issue of whether programmers' licenses extend to the home.

In mid-October, Magistrate Michael Dollinger of the U.S. District Court in New York put off resolving whether operators must pay fees for ASCAP-registered music used in programs they distribute to subscribers.

But he handed down a stopgap measure, setting interim fees owed by the cable networks until final levels could be worked out between the programmers and ASCAP, or if necessary, the court.

"It feels good to get some money flowing in," said Gloria Messinger, ASCAP managing director. She estimated that ASCAP will receive \$8-\$9 million in interim fees.

ASCAP believes the judge made numerous errors in a separate Showtime decision, which the music licensing organization is likely to appeal.

INTERIM FEES IMPOSED BY THE COURT

Licensor	Starting Date for Fee Payment*	Annual Amount	Sub Count	1989 Gross Revenue**
Showtime/TMC	Jan. 4, 1989	15 cents/sub	10 million	not applicable
HBO/Cinemax	Jan. 1, 1989	15 cents/sub	23.1 mill.	n/a
Disney Channel	June 7, 1989	15 cents/sub	4.5 mill.	n/a
Playboy	March 3, 1989	15 cents/sub	430,000	n/a
SportsChannel/Prism	March 6, 1989	15 cents/sub	3.5 mill.	n/a
Bravo	March 8, 1989	15 cents/sub	2.5 mill.	n/a
AMC	March 6, 1989	15 cents/sub	20 mill.	n/a
USA Network	Aug. 11, 1988	.3%/gross rev.	n/a	\$229.2 million
Lifetime	Sept. 23, 1988	.3%/gross rev.	n/a	\$113.3 million
Discovery	Nov. 22, 1988	.3%/gross rev.	n/a	\$43.9 million
Family Channel	Nov. 22, 1988	.3%/gross rev.	n/a	\$84.7 million
BET	Nov. 20, 1988	.3%/gross rev.	n/a	\$21.1 million
A&E	Dec. 14, 1988	.3%/gross rev.	n/a	\$88.7 million
MTV/VH-1/Nick	Jan. 4, 1989	confidential	n/a	n/a
TNN	Feb. 10, 1989	confidential	n/a	n/a
Country Music	May 9, 1989	.7%/gross rev.	n/a	\$3 million
Turner	Oct. 3, 1988	.3%/gross rev.	n/a	\$626.5 million

* The Consent Decree provides that interim fees are to be awarded 'from the date of the filing of such application for interim fee'. If, however, that application is filed before the effective date of the requested license, the interim fee should run from the starting date of the license, since the licensee is not authorized to use the ASCAP music until that date.

** 1989 gross revenue projections made by Paul Kagan Associates. Estimates combine gross advertising billings with license fee revenue, but don't include revenue from other sources such as program guides or syndication.

*** The public court papers did not reveal what the annual level of interim fees will be for MTV/VH-1/Nickelodeon and The Nashville Network, in accordance with an agreement between ASCAP and those networks to keep the interim fee amount confidential.

However, in the Showtime case, the court "also ordered Showtime to pay the interest we asked for, which is encouraging for the future," she said, referring to the 11 percent interest directed on fees not paid during 1984-1988.

She also pointed out that in neither decision Dollinger didn't rule on whether ASCAP's 1950 consent decree covers cable television.

Bruce Sokler, a Turner attorney with the Washington firm Mintz, Levin, Cohn, Ferris, Glovsky

and Popeo, commented: "This ruling doesn't resolve anything."

But Sokler pointed out that the larger, unresolved, issue of whether operators will have to pay license fees "is still up for grabs." ■

Financial/Stocks

• In a move to bolster the geographic scope of their operations, independent brokerage/financial services firms **Johnson, Crowley & Associates** and **Communications Marketing Group Inc.** will align their operations. The move stops short of a merger, and each will maintain separate identities but will work together to provide a fuller range of client services, says Communications Marketing principal Allan Bowdach. "By having Allan in the fold, we'll be able to do more together than either would do individually," says Eugene Johnson. The association is a reunion of sorts; principals in both firms previously worked together at Cable Investments Inc. And they share a philosophy: both firms say they get the most satisfaction from tough deals, involving things like bankruptcies or overbuilds. "We're going to see the fruits of this association real soon," Bowdach predicts.

• **Turner Broadcasting System** completed its \$1.6 billion refinancing. The refinancing included the sale of \$550 million of debentures that proved to be one of the few successful high-yield offerings in a weak junk bond market. The remainder was comprised of a \$900 million bank credit facility arranged by Chase Manhattan Bank and \$200 million in proceeds of LYONs underwritten by Merrill Lynch Capital Markets. TBS said it expects to record an extraordinary loss of approximately \$122 million in the fourth quarter as a result of the early retirement of debt. Ted Turner said the company's long-term financing is now "on a much more reasonable basis than before."

• **QVC Network Inc.** completed its acquisition of **CVN Companies**

QUARTERLY EARNINGS CHART						
Dollar amount in thousands						
Company (Quarter/Fiscal Year)	Revenue	%Change	Operating Profit	%Change	Net Income	%Change
Capital Cities/ABC (3rd/89)	\$ 1,101,238	9	\$ 157,277	14	\$ 80,781	22.4
Century Communications (1st/90)	\$2,879	21.3	3,320	- 65.8	- 14,409	- \$45.6
Home Shopping Network (4th/89)	187,400	11.5	N.A.	N.A.	- 26,000	- 87.3
Scripps Howard (3rd/89)	69,923	7.1	11,918	3.8	2,869	14.6
Time Warner (3rd/89)	2,194,000	48.3	323,000	43.6	-176,000	- 360.2
Times Mirror (3rd/89)	873,862	67.6	113,887	- 7.3	70,140	- 13.3
Video Jukebox Network (3rd/89)	1,145	66	N.A.	N.A.	- 290	- 39.3
Zenith Electronics (3rd/89)	376,800	4.2	- 7,300	- 82.1	- 24,100	- 87.5

Inc. in a consolidation that transforms the second- and third-ranked home shopping networks into the largest in the field. Under terms of the \$462 million acquisition, QVC paid \$19 a share plus one-eighth of a share of QVC stock for each share of CVN. Comcast Corp. kicked in \$30 million in subordinated debt, and TCI may lend QVC up to \$50 million to help finance the deal. The deal did force CVN to cancel its previously announced \$10 dividend. When the operations are fully integrated, the QVC/CVN program will offer a single channel reaching approximately 32 million subs. The company's other channel will be used for a new multiple-merchant shopping program reaching 7 million subscribers.

• **Cable Investments Inc.** announced several appointments, including Peggy Worthington, who joins the broker as a financial analyst, and Vince Allen and Karen Dexter, both joining the brokerage division as assistant vice presidents. Gerald

Smart has been named a vice president of the firm's brokerage division, and Robert Berger has been promoted to senior vice president. The firm said it expects that the deals it will close this year to top \$200 million, including investment banking projects.

• **Comcast Corp.** voted a three-for-two stock split in the form of a 50 percent stock dividend. The split also resulted in an adjustment of the company's previously announced four-cent-a-share cash dividend, which has been reduced to 2-2/3 cents per share.

Acquisitions

• **E.W. Scripps Co.** bolstered its system holdings with the acquisition of a suburban Atlanta system held by **Cable USA Inc.** The system, adjacent to holdings the company has in northern Georgia, is still under construction, and ultimately will serve 7,600 homes, the company said. Terms were not revealed.

The CABLE POLL

Midwest CATV & CableVision Magazine

DATABASE

More systems hire security officers in all-out campaign to reduce theft of service

From tightening up operational procedures to reduce "coffee shop disconnects" to assisting federal authorities in breaking up interstate black box rings, it now is evident that cable operators are making a major commitment to combat theft of service.

Increasingly, that commitment is taking the form of a new staff person, the system security manager. These people, often former law enforcement officers, are responsible for tap audits, converter box security and prosecutions. And in many cases they are more than paying for themselves through the increased cash flow generated when illegal customers become paying subs.

According to data from the Cable Poll™, 16 percent of all systems—and an eye-opening 50 percent of all systems with more than 50,000 subs—

now have a security person either on the local staff or at regional headquarters. And these security managers obviously are hard at work. The Cable Poll™ reveals that 80 percent of all systems have instituted regular sweeps, or tap audits, to de-

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in a series
of ten

tect homes that are receiving unauthorized service; 36 percent of all systems and 50 percent of the larger systems have offered an amnesty program; and 45 percent of all systems (73 percent of the larger ones) have adopted tighter controls over converters, both as a means of eliminating theft of pay channels by legal basic customers and to reduce the number of boxes that disappear into the black market.

But perhaps the most striking figure from the poll is that 36 percent of all

operators have filed civil or criminal charges against an individual or a company in the past year, a figure that rises to 55 percent of systems with more than 50,000 subs.

As growth in penetration slows, operators sometimes can find as many new customers among the illegal population as in the community at large, according to experts such as Bob Astarita.

Astarita, corporate director of security at Cablevision Systems Development, is among the old hands in fighting cable theft, and may be the original, having been on the job with Cablevision since he left the FBI in 1984. In that time he and his staff (there's a trained security director on site at each of the seven Cablevision divisions) have filed "several hundred" civil and criminal charges against cable thieves "and we've never lost one," he says proudly.

Astarita advocates a simple, direct approach to reducing theft. The Cablevision method is this: Initially, each system conducts a thorough tap audit, which spots homes that are receiving service but who are not paying customers. Those homes immediately are disconnected and sent a non-accusatory letter stating that, perhaps as a result of the cable company's fault, they are improperly receiving service. As a friendly reminder, the legal penalties for theft of service are stated. Marketing brochures also are included. Astarita's experience is that 25 percent of those quickly convert to paying subs.

Phase two is a second tap audit focusing on those homes that did not convert. If any of them are found to have reconnected, Cablevision swiftly files civil or criminal suits, depending on existing laws of the state.

And while he is reluctant to discuss budgets, it's apparent that Astarita's

department is a net revenue generator for Cablevision. The amount of money he returns to corporate, over and above all salaries and expenses, "is in the seven figures. You could say the return on the investment that's made in the security function here is 100 percent."

Cox Enterprises, parent of Cox Cable, also has a former FBI agent, Terry Wingfield, managing its security program. The company as well has hired Chuck Rochner, a former Secret Service agent who worked at the White House, as director of security for the cable division.

They and a host of other security directors at MSOs and programmers—Astarita said their ranks have at least doubled in the last year—work closely with Jim Allen, director of the Office of Cable Signal Theft at the NCTA. They have grown into a fraternity of sorts whose greatest value to the industry may well be their working relationships with old friends still in the FBI, the U.S. Customs Service or among the many U.S. Attorneys. While they are modest in claiming credit, it can be concluded that a main reason many more prosecutors now are pressing theft of service cases—especially those involving large mail-order houses specializing in black boxes—is because they know they are being handed air-tight cases by cable security personnel.

Despite these advances, theft remains a staggering problem (see related story, page 54). Allen estimates that active theft, stemming from the black market in altered converter boxes, and passive theft—faulty disconnects and people who hook it up themselves—amounts to a \$1.2 billion drain on annual industry revenue.

Interviewed by Cable Poll™ researchers, 62 percent of operators esti-

mated that passive theft amounts to five percent or less of lost revenues; 28 percent put the figure at between five and 10 percent, while 15 percent of operators said passive theft amounts to between 10 and 15 percent of lost revenues. By weighting and averaging the midpoints of those responses, it can be determined that operators on average are seeing 4.75 percent of total revenues disappear down the wire, a figure that translates into \$664.72 million lost to theft this year, based on a conservative estimate of \$14 billion in total industry-wide operator revenues.

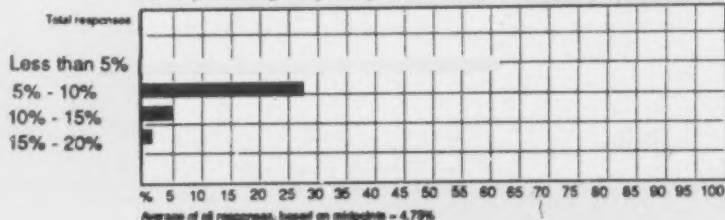
Hiring a trained security person, although expensive, is a wise move for larger systems, Allen said. "Many operators realize that existing personnel can't devote the time to this that it deserves, and they recognize that to be successful you have to have someone with a law enforcement background who can work with and cooperate with the local authorities to develop cases and bring them to trial."

Allen recommends that for a theft-reduction campaign to be successful, an operator must adopt "an all-encompassing approach, starting with your own employees. After they have been trained to understand that you will have a low tolerance of theft, then that concept has to be put out in the community that you will take a hard stance against it. Then the thing to do is establish contact with law enforcement."

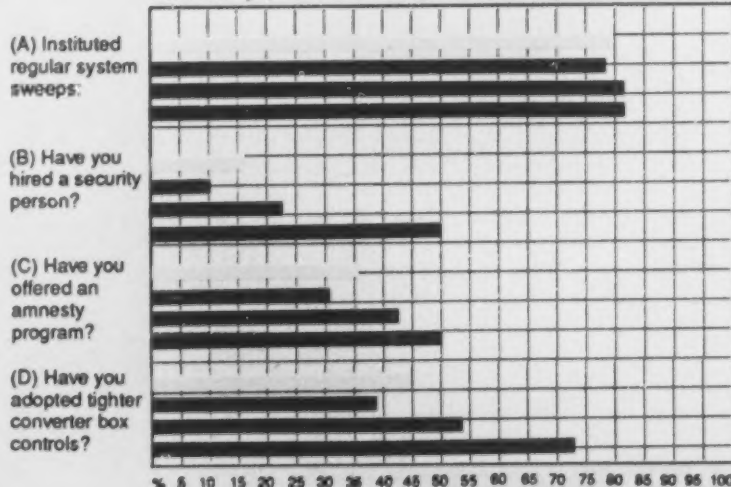
It's understood that in the past year OCST and its network of MSO security managers has assisted federal authorities in identifying and building cases against between 20 and 25 major black box companies. It's believed that several of those cases, some involving claims for sums in the millions of dollars, will break later this year. ■

Adding Up Your Answers:

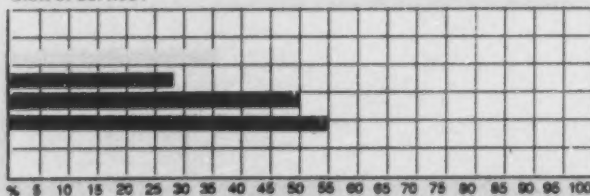
What percentage of your system revenues is lost to theft of service?



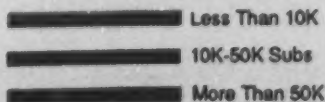
What have you done to combat theft in the last year?



In the past year, has your system filed charges against anyone for theft of service?



Overall



HOW THE POLL WAS CONDUCTED: The Cable Poll™ is conducted for Midwest CATV and Cable/Vision magazine by Ryan/Samples Research Inc. Telephone interviews for this edition of the poll were conducted Aug. 14-19 with a random sample of 387 system management personnel obtained from CableFile Research. Cable Poll™ researchers are 95 percent confident that the results are an accurate reflection of the total industry within plus or minus 5 percentage points.

